

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

T2, 2018/ 2019

BFM7094 – FINANCIAL MARKET
(MBA Full Time)

28 JANUARY 2019
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 3 pages (including this cover page).
2. There are **Four** (4) Questions. Answer **ALL** questions.
3. Please write all your answers in the answer booklets provided.

QUESTION 1 (25 MARKS)

Malaysia faced tough financial crisis during the period 1996-1998. While other countries such as Indonesia accepted assistance from International Monetary Fund (IMF), Malaysia, on the other hand, adopted different strategies to improve its economy during that period. One of the strategies was to impose capital control.

- a. Discuss the roles and critics of IMF in providing solution to Asian financial crisis. (10 marks)
- b. Discuss the pros and cons of control on capital in and outflows. (8 marks)
- c. Are controls on capital adopted by Malaysia a good idea? Explain your answer. (7 marks)

QUESTION 2 (25 MARKS)

Central Bank is a constitutional institution of a nation. It acts as regulator and policy maker of a country's monetary policy.

- a. Discuss the roles of Central Bank. (10 marks)
- b. Discuss **four** (4) reasons why cryptocurrencies should not be recognized. (8 marks)
- c. If Central Bank decides to increase interest rates, what are the impact on stock and bond market? (7 marks)

QUESTION 3 (25 MARKS)

Financial market is a crucial component in the economic system. It is the engine that drives the economy, being a platform where surplus units meet deficit units and negotiate various kinds of financial agreement. The objective of financial market development is, therefore, to enhance the capability of the financial market to act efficiently as an intermediary.

- a. What is efficient financial market? (4 marks)
- b. Discuss the difference between capital and money market. (8 marks)
- c. Assume you just deposited RM1,000 into a bank account. The current real interest rate is 2% and inflation is expected to be 6% over the next year. What nominal interest rate would you require from the bank over the next year? How much money will you have at the end of one year? If you are saving to buy a stereo that currently sells for RM1,050, will you have enough to buy it? (8 marks)

Continued ...

- d. KTM Berhad has a moderate amount of debt in its capital structure. The company's CEO is planning to issue debt or equity to raise the funds needed to finance an upcoming project. In December 2018, the company has reported RM1.2 billion in tax loss carry forward. This indicate that the next RM1.2 billion of the firm's income will be free from corporate income taxes. Security analysts estimate that it will take many years for the company to generate RM1.2 billion earnings. Advice the CEO on the best method of financing available in the financial market. Elaborate your argument.

(5 marks)

QUESTION 4 (25 MARKS)

- a. Discuss the benefit of investing in mutual funds. (12 marks)
- b. Explain the difference between mutual funds and unit trusts. (7 marks)
- c. On 2nd January 2018, the shares and prices for a mutual fund at 4:00pm are as follows:

Stock	Shares owned	Price
1	1,000	\$ 1.90
2	4,000	\$ 52.00
3	2,000	\$ 29.00
4	9,000	\$ 67.00
5	5,000	\$ 4.50
cash	n.a.	\$6,000.00

Stock 3 announces record earnings, and the price of stock 3 jumps to \$33.00 in after-market trading. If the fund (illegally) allows investors to buy at the current NAV,

- i. How many shares will \$30,000 buy?
- ii. If the fund waits until the price adjusts, how many shares can be purchased?

Note: Assume 6,000 shares are outstanding.

(6 marks)

End of Paper